HEALTHY LOUISIANA

Financial Reporting Guide

Managed Care Organizations

AGREED UPON PROCEDURES

The following agreed upon procedures (AUPs) between the Healthy Louisiana (Contractors) and its independent public accountant are required to meet audit requirements of Schedule A (Balance Sheet), Schedule C (ending Income Statement 4th Quarter Year-to-Date [YTD]), Schedules R – W (Lag Reports), Schedule X (Pharmaceutical Statistics), Schedule AA (Delegated Vendors Service Schedule) and Schedule AY (Administrative Summary) of the Healthy Louisiana Managed Care Organization Financial Reporting Requirements (FRRs). The AUPs are in effect for the annual reporting period (or periods less than 12 months) ending each December 31, and shall be submitted by June 30 of the subsequent year.

The following items are to be included with the accountant's report:

1. AUP report.

2. Financial management letter – if available through an independent audit (not related to these AUPs) of the contractor's financial statements.

3. Report on internal controls – if available through an independent audit (not related to these AUPs) of the contractor's financial statements.

Work papers should be made available to the Louisiana Department of Health (LDH) upon request.

Procedures contained herein are established as minimum requirements. All findings from AUP shall be reported in the AUP report and attached as a PDF in Schedule AZ managed care organization (MCO) AUP. Adjusting entries shall be documented in Schedule AW (Annual Income Statement Reconciliation) additional procedures may be added and performed as agreed to by the Contractor and the accountant performing them without LDH approval; however, changes, deletions or variations to the procedures specified herein will require prior approval of LDH.

Steps to provide information are as follows:

Schedule A: Balance Sheet

Unless directed otherwise, all AUPs for this section are to be performed on the 4th Quarter YTD Schedule A – Balance Sheet.

Step 1: Trace and agree upon the amount reported as Cash Balances.

a. Obtain a copy of the monthly bank statements and bank reconciliations for 4th Quarter YTD and for one other quarter end. Trace and agree upon the amount of cash and cash equivalents reported available for use in the 4th Quarter YTD Balance Sheet. Provide contractor's explanation for any discrepancies.
b. Trace and agree the *balance per bank* from the reconciliation to the corresponding ending balance of the bank statement, and the *balance per books* to the corresponding amount in the trial balance. Provide contractor's explanation for any discrepancies.

Step 2: Trace and agree upon the amount recorded as the Medicaid Capitation Receivable, capitation payments earned, but not yet received from LDH for the Medicaid line of business.

a. Identify member months and payments that were not paid and reconcile. Randomly sample 5 members and verify their eligibility per the 820 recoupment files received but not yet paid file. Provide contractor's explanation for any discrepancies.

Step 3: Trace and agree upon the amount recorded as Claims Payable for the Medicaid line of business.

a. Obtain and verify claims payable aging as of December 31. Verify the aging ties to the general ledger. Request explanations for credit balances over $100,000. Request explanations for payables greater than 90 days old in excess of $5,000. Provide contractor's explanation for any discrepancies.

Schedule C: Income Statement

Unless directed otherwise, all AUPs for this section are to be performed on the 4th Quarter YTD Schedule C – Income Statement.

Step 1: Trace and agree reported Member Months:

a. Trace and agree the membership reports, received and/or accrued for the 12-month period ending December 31 received from LDH to the membership amounts reported in the 4th Quarter YTD Income Statement. Provide contractor's explanation for any discrepancies.

b. Trace and agree the membership reports, received and/or accrued for the 12-month period ending December 31 from the contractor's internal enrollment reports to the membership amounts reported in the 4th Quarter YTD Income Statement. Provide contractor's explanation for any discrepancies.

Step 2: Trace and agree reported Maternity Delivery Payment Count:

a. Trace and agree the maternity delivery payment count, received and/or accrued for the 12-month period ending December 31 received from LDH to the maternity counts reported in the 4th Quarter YTD Income Statement. Provide contractor's explanation for any discrepancies.

b. Trace and agree the maternity delivery payment count, received and/or accrued for the 12-month period ending December 31 from the contractor's internal maternity count reports to the maternity delivery counts reported in the 4th Quarter YTD Income Statement. Provide contractor's explanation for any discrepancies.

Step 3: Trace and agree the dollar amounts reported as Capitation (Physical, Non-Emergency Medical Transportation and Specialized Behavioral Health):

a. Trace and agree each of the monthly capitation files received from LDH during the year to the proper posting in the contractor's general ledger. Obtain representation from the contractor's management that the contractor is reporting using the full accrual method. Provide contractor's explanation for any discrepancies.

b. Trace and agree the total general ledger postings of capitation files during the year (plus/minus accruals for under-/over-payments as necessary for proper accrual-based reporting) to the 4th Quarter YTD Income Statement. Obtain and provide reconciliation for any differences other than adjustments for accrual-based reporting and a contractor's explanation for any discrepancies.

Step 4: Trace and agree the dollar amounts reported as Maternity Delivery Payments:

a. Trace and agree each of the monthly payment files received from LDH during the year to the proper posting in the contractor's general ledger. Obtain representation from the contractor's management that the contractor is reporting on the full accrual method. Provide contractor's explanation for any discrepancies.

b. Trace and agree the total general ledger postings of payment files during the year (plus/minus accruals for under/over-payments as necessary for proper accrual-based reporting) to the 4th Quarter YTD Income Statement. Obtain reconciliation for any differences other than adjustments for accrual-based reporting and a contractor's explanation for any discrepancies.

Step 5: Trace and agree the amounts reported as Covered Medical Expenses:

a. Select total inpatient expenses (Line 23), total outpatient expenses (Line 30), total professional expenses (Line 42), total specialized behavioral health expenses (Line 43), total other medical expenses (Line 60), and total pharmaceutical expenses (Line 66) from each of the income statement categories and the three largest (greatest dollar amount) sub-category expense line items within each total category (inpatient, outpatient, professional, other medical and pharmaceutical). For specialized behavioral health, select the three largest (greatest dollar amount) sub-category lines from Schedule C-1.

b. For the total categories (inpatient, outpatient, professional, specialized behavioral health, other medical and pharmaceutical) and for the sample of sub-categories selected in Step 5a, trace and agree selected cells to the supporting documentation used by the contractor to complete the report for the 4th Quarter YTD amounts. Provide contractor's explanation for any discrepancies.

c. For the total categories (inpatient, outpatient, professional, specialized behavioral health, other medical and pharmaceutical) and for the sample of sub-categories selected in Step 5a, trace and agree amount reported in each cell to actual claims paid and an allocation of expenses incurred but not reported (IBNR). Provide contractor's explanation for any discrepancies.

d. For the total categories (inpatient, outpatient, professional, specialized behavioral health, other medical and pharmaceutical) and for the sample of sub-categories selected in Step 5a, recalculate the allocation of IBNR expenses to each income statement to determine if they are in the same proportional amounts as received (and allowed) and/or paid claims. If they are not in the same proportion, describe the methodology used by the contractor to allocate IBNR expenses for the completion of the report and recalculate the allocation based upon the contractor's methodology. Provide contractor's explanation for any discrepancies.

e. For the total categories (inpatient, outpatient, professional, specialized behavioral health, other medical and pharmaceutical) and for the sample of sub-categories selected in Step 5a, select two paid claims from each group.

f. For the sample selected in Step 5e, trace and agree the classification of the covered medical expense to the classification reported within the Income Statement. Determine if the claims selected from Step 5e are included in an appropriate Income Statement-covered medical expenses category. Provide contractor's explanation for any discrepancies.

Step 6: Trace and agree the amounts reported as Medical Expense Adjustments:

a. Trace and agree the 4th Quarter YTD Income Statement total for Reinsurance Premiums, Reinsurance Recoveries, MCO Retained Rebates, Third Party Liability Subrogation, Fraud and Abuse Recoveries and Other Recoveries to the supporting documentation and files of the contractor. Provide contractor's explanation for any discrepancies.

b. For Reinsurance Premiums, recalculate the annual premium based upon the contractor's reinsurance agreement and agree to the amount reported as the 4th Quarter YTD Income Statement value. Provide contractor's explanation for any discrepancies.

c. For Reinsurance Recoveries, select four individual cases (an individual case is defined as a member that met the threshold of the reinsurance agreement) that resulted in a reinsurance recovery. (Note: Reinsurance recoveries that show up in the report may be selected, including recoveries not accrued from previous years.) Current year accruals should be based on a current reinsurance agreement that can be selected.

d. For the sample selected in Step 6c, review the individual member's claim payment history, recalculate and agree the amount reported as reinsurance recovery is consistent with the terms of the contractor's reinsurance agreement and the individual member's paid claims. Provide contractor's explanation for any discrepancies.

e. For Third Party Liability Subrogation, cost-sharing revenue, include third party sources received on a cash basis for subrogation recovery efforts that could not be directly associated with a claim. Do not include coordination of benefit (COB) payments that are deducted from payments to providers in the normal course of claims processing. Provide contractor's explanation for any discrepancies.

Step 7: Trace and agree the amounts reported as Administrative Services Expenses:

a. Read the Healthy Louisiana MCO Financial Reporting Guide Instructions for guidance on administrative expenses that are *allowable* and *excludable* from Health Care Quality Improvement (HCQI) expenses.

b. Obtain and review the contractor's definition of HCQI *allowable* and *excludable* expenses policy and compare to item(s) from Step 7a. Report the discrepancies and provide contractor's explanation for any discrepancies.

c. Read the Healthy Louisiana MCO Financial Reporting Guide Instructions for guidance on Methods Used to Allocate Expenses.

d. Obtain and review the contractor's allocation methodologies and compare to item(s) from Step 7c. Report the discrepancies and provide contractor's explanation for any discrepancies.

e. Obtain and review the contractor's summarized general ledger and agree to total administrative expense (line 108). Provide reconciliation for any differences and a contractor's explanation for any discrepancies.

f. Trace and agree supporting documentation to the dollar amounts reported in lines 76–82 and lines 89–107. Provide reconciliation for any differences and a contractor's explanation for any discrepancies.

g. Trace and agree upon the amounts reported in the Pharmacy Administration Fees lines 84–87 paid by the MCO to the contracted Pharmacy Benefit Manager (PBM). Exclude internal PBM costs associated with the administration of the pharmacy benefit that are not charged to the MCO, but should include all costs charged to the MCO beyond what is paid to the pharmacy providers for the prescriptions not already included in the PBM spread pricing or retained rebates categories. Provide contractor's explanation for any discrepancies.

h. Select the three largest (greatest dollar amount) and one other sub-categories reported as HCQI expenses (lines 76–82) and obtain and provide representations from the contractor's management that the expenses are appropriately classified as HCQI expenses consistent with Step 7a and Step 7b.

Step 8: Trace and agree the amounts reported as Member Value-Added Services:

a. Trace and agree the 4th Quarter YTD Income Statement total for Encounter and Non-Encounter Member Value-Added Services to the supporting documentation and files of the contractor. Provide contractor's explanation for any discrepancies.

b. If the member value-added service is delegated, review the delegated service contract as well as the delegated service report to ensure administration expense is reported within the administrative expense section of the income statement, profitability statement, and detailed administrative report, as opposed to a member value-added service expense.

Step 9: Trace and agree the amounts reported as Non-operating Income (Loss), Income Taxes, Premium Tax Assessments, and Other:

a. Trace and agree the 4th Quarter YTD Income Statement Total for Loss, Income Taxes, Premium Tax Assessments, and Other to the supporting documentation and files of the contractor. Provide contractor's explanation for any discrepancies.

b. Obtain representation from the contractor's management that line 116 (Income Taxes) includes all State, Federal and Local Income Taxes and that these taxes are not reported as an administrative expense within lines 76─107. Review the general ledger account descriptions for administrative expenses within lines 76–107 and confirm no descriptions are labeled State, Federal and Local Income Taxes. Provide contractor's explanation for any discrepancies.

c. Obtain representation from the contractor's management line 117 (Premium Tax Assessments) includes all State Premium Tax Assessments and that these taxes are not reported as an administrative expense within lines 76–107. The contractor should calculate the 5.50% premium tax and the auditor should confirm the accuracy of this calculation in accordance with contract requirements and agree the amount calculated to line 117. Provide contractor's explanation for any discrepancies.

d. Obtain representation from the contractor's management that lines 123–126 Managed Care Incentive Program (MCIP) reflects revenue and expenses for the current and prior years.

Step 10: Identify, trace and agree the amount and payment methodology for Related Party Transactions reported within Schedule C – Income Statement. The term Related Party refers to any entity(ies) that is(are) associated with the contractor by any form of common, privately held ownership, control or investment.

a. Obtain and provide a list of transactions between the contractor and any related party reported within Schedule C – Income Statement. The list of transactions must include the name of related party, relationship to contractor, description of transaction (a series of transactions for the same purpose can be listed as on transaction), total dollar amount reported within Schedule C – Income Statement and payment/contract terms.

b. For related party administrative service expenses, identify those expenses that are allocated to the contractor. For all allocated administrative service expenses, report whether the allocation is based on cost or cost plus. If cost plus, report the percentage above cost.

c. From the list of transactions in Step 10a, select the three highest dollar amount transactions and one other transaction. (Note: include a series of transactions as one transaction for this selection.)

d. For the sample of transactions selected in Step 10c, recalculate the total dollar amount reported within Schedule C – Income Statement based upon the payment/contract terms of the agreement between the contractor and related party. List discrepancies and provide contractor's explanation for such discrepancies.

Schedule R - W: Lag Reports

Given that the estimation of medical expenses and accruals is a key component to the accuracy of the amounts reported within the Income Statement, Schedules R – W (Lag Reports) are included within the AUPs:

Step 1: Trace and agree the amounts paid for each month (Total Paid by Month – Column AO) for the most recent 12-month period ending December 31.

a. Trace and agree each monthly amount to the supporting documentation used by the contractor to complete each lag report. Provide contractor's explanation for any discrepancies.

b. Trace and agree each monthly amount to the monthly check register or claims system monthly summary. Provide contractor's explanation for any discrepancies.

c. Obtain representation from the contractor's management that medical cost is reported net of third party liability and COB. Provide contractor's explanation for any discrepancies.

Step 2: Trace and agree the amounts paid in the individual cells for the most recent 12-month incurred period ending December 31.

a. For the claims paid and incurred on Schedules R – W, trace and agree four cells from each lag report (a total of 24 cells) to the supporting documentation used by the contractor to complete the lag report. Provide contractor's explanation for any discrepancies.

b. Validate the amounts within the 4th Quarter lag report have not materially changed from the prior quarter. Specifically, trace and agree amounts reported in lines 4–37 to the corresponding paid and incurred months within the 3rd Quarter lag reports. Provide contractor's explanation for material discrepancies.

Step 3: Trace and agree the amounts that comprise the individual cells.

a. From the sample selected in Step 2a, select three claims from each cell (a total of 72 claims).

b. For the sample selected in Step 3a, verify the claim is reported in the correct month of service by tracing and agreeing to the date of service on the claim. Provide contractor's explanation for any discrepancies.

c. For the sample selected in Step 3a, verify the claim is reported in the correct month of payment by tracing and agreeing to the claim payment system or underlying check register. Provide contractor's explanation for any discrepancies.

d. For the sample selected in Step 3a, verify the claim is reported in the appropriate lag report (inpatient, outpatient, professional, specialized behavioral health, other medical or pharmaceutical) by tracing and agreeing type of service to the hard/electronic copy of the claim. Provide contractor's explanation for any discrepancies.

e. For the sample selected in Step 3a, verify the claim is related to a Healthy Louisiana Medicaid beneficiary by tracing and agreeing to the contractor's member eligibility system. Provide contractor's explanation for any discrepancies.

f. For the sample selected in Step 3a, verify the claim was paid in accordance with the terms of the applicable provider contract in effect at the date of service. Provide contractor's explanation for any discrepancies.

Step 4: Trace and agree the Global/Sub-Capitation Payments (Line 39-Global/Sub-Capitation Payments) for the most recent 12-month incurred period ending December 31. This step is not applicable if the lag report does not contain sub-capitation payments.

a. Trace and agree each monthly amount to the supporting documentation used by the contractor to complete the lag report. Provide contractor's explanation for any discrepancies.

b. Trace and agree each monthly amount to the general ledger. Provide contractor's explanation for any discrepancies.

c. In the event there are no sub-capitation payments, obtain representations from the contractor confirming the contractor did not have payments of this nature during the reporting period.

Step 5: Trace and agree the amounts that comprise Global/Sub-Capitation Payments. This step is not applicable if the lag report does not contain sub-capitation payments.

a. From each lag report except pharmacy select two cells. From each cell, select two (a total of four sub-capitation payments per lag report) sub-capitation payments.

b. For the sample selected in Step 5a, recalculate the monthly payment based upon the provider contract in effect during the month of payment. Provide contractor's explanation for any discrepancies.

c. For the sample selected in Step 5a, verify the transaction is recorded in the correct month of service by tracing and agreeing to the invoice or check request

that substantiates the check. Provide contractor's explanation for any discrepancies.

d. For the sample selected in Step 5a, verify the check has cleared the bank by tracing and agreeing to the bank statement. Provide contractor's explanation for any discrepancies.

e. For the sample selected in Step 5a, verify the transaction is reported in the appropriate lag report by tracing and agreeing to the contract provider type and covered services. Provide contractor's explanation for any discrepancies.

Step 5.1: Trace and confirm the amounts that comprise the pharmacy rebates listed on the pharmaceutical lag table.

a. Select four cells from the pharmaceutical lag report.

b. For the sample selected in Step 5.1a, trace and tie the pharmacy rebate amount to the supporting documentation used by the contractor to complete the report. Please provide the contractor's explanation for any discrepancies.

c. Variation may occur between accounting for pharmacy rebates on an accrued and cash basis. Tracing pharmacy rebates may be performed on a cash basis to align with how the MCO reports data within the lag reports due to the LDH rebate policy starting in May 2019.

Step 6: Trace and agree the amounts reported as value-based payments (VBP) (line 40-Value Based Payments).

a. Payments should reflect payments that align with the LDH quality strategy and are linked to quality of care and evidence-based practices.

b. Payments may not align directly with VBP templates due to the differences in basis of reporting and the possible timing the approval of VBPs.

Step 7: Trace and agree the amounts reported as alternative payment methodologies (APM) (line 41-Alternative Payment Methodologies).

a. APM Strategic Plan Requirements report should be reported in the lag reports within line 41 APMs.

Step 8: Trace and agree the amounts reported as settlements (Line 42-Settlements) of the most recent 12-month incurred period ending December 31. This step is not applicable if the lag report does not contain settlements.

a. Trace and agree all settlement amounts to the supporting documentation used by the contractor to complete the report. Provide contractor's explanation for any discrepancies.

b. For the reported settlement amounts, verify the transaction is reported in the appropriate lag report by tracing and agreeing to the supporting documentation. Provide contractor's explanation for any discrepancies.

c. In the event there are no settlements reported, obtain representations from the contractor confirming the contractor did not have settlements during the reporting period.

Step 9: Trace and agree the amounts reported as settlements (Line 43-Other Contractual Payments) of the most recent 12-month incurred period ending December 31. This step is not applicable if the lag report does not contain other contractual payments.

a. For the reported other contractual payment amounts related to Full Medicaid Pricing (FMP), verify the largest transactions from each FMP category are reported in the appropriate lag report by tracing and agreeing to the supporting documentation, as well as compared against the Ambulance, Hospital and Physician Monthly FMP payment reports published by LDH. Provide contractor's explanation for any discrepancies.

b. For the reported other contractual payment amounts not related to FMP or settlements, which may be related to provider incentives or value-based purchasing, verify the largest transactions are not reported in the claims lag by tracing and agreeing to the supporting documentation. Provide contractor's explanation for any discrepancies.

Step 10: Report on the contractor's total IBNRs (Line 45 – Current Estimate of Remaining Liability – Claims Incurred But Not Reported).

a. Obtain and read the contractor's policy, procedures and methodologies for calculating IBNR medical claim liability.

b. If the IBNR estimation includes a premium deficiency reserve and/or built-in cushion/reserve obtain and provide the amount for each and the methodology for calculation.

c. Include the item(s) obtained in 7a and 7b as an attachment to the AUP report.

Step 11: Trace and agree the allocation of IBNRs (Line 45 – Current Estimate of Remaining Liability – Claims Incurred But Not Reported) by month of service.

a. Trace and agree the IBNR reported by month for the lag triangles to the supporting documentation used by the contractor to complete the report. Provide contractor's explanation for any discrepancies.

Step 12: Report on the contractor's member value-added services (Line 47 – Member Value-Added Services Paid).

a. Obtain and read the contractor's policy, procedures and methodologies for classifying expenditures as member value-added services.

b. For the reported member value-added services, verify the transaction is reported in the appropriate lag report by tracing and agreeing to the supporting documentation. Provide contractor's explanation for any discrepancies.

c. Ensure that any costs related to the member value-added services are excluded from lines 1-37, and are included in the net service expense.

Schedule X: Pharmaceutical Statistics

Given that the estimation of price and utilization of Pharmaceutical services is a key component to the accuracy of the amounts reported within the Income Statement, Schedule X is included within the AUPs:

Step 1: Verify the amounts reported in line 32 are actual amounts paid to providers' gross of all rebates (i.e. rebates are excluded from paid amounts). Provide contractor's explanation for any discrepancies.

Schedule AB: Delegated Vendors Service Schedule

This report is a summary of delegated service expenses by vendor. The contractor will submit one report in the 4th Quarter YTD submission:

Step 1: Identify if the vendor has full risk, shared risk or no risk and verify it matches what is reported in Column C. Provide contractor's explanation for any discrepancies.

Step 2: Obtain and read the Delegation of Services Agreement to trace and agree on the categorization of the expenses if the vendor is responsible for processing claims on behalf of the MCO.

a. Trace and agree expenses were categorized correctly into the General Administrative category. Provide contractor's explanation for any discrepancies.

b. Trace and agree expenses were categorized correctly into HCQI category. Provide contractor's explanation for any discrepancies.

c. Trace and agree expenses were categorized correctly into the Health Care Expenses Paid to Delegated Vendors' category. Provide contractor's explanation for any discrepancies.

Schedule AY: Administration Summary

Unless directed otherwise, all AUPs for this section are to be performed on the 4th Quarter YTD Schedule AY – Administration Summary.

Step 1: Verify the total amounts listed in Column I tie to the general ledger. Provide contractor's explanation for any discrepancies.

Step 2: Review PBM-related contracts and trace and agree upon the amounts recorded.